Alberta Heritage Savings Trust Fund

Annual Report 2007-2008

Alberta

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Table of Contents
2007-2008

Highlights 2
History of the Heritage Fund 4
Minister of Finance and Enterprise's Report 5
The Year in Review 6
Market Summary 7
Performance Measures 8
Investments 9
Investment Income 12
Investment Expenses 13
Historical Summary of Operations 14
Financial Statements 15
Auditor's Report 16
Fund Governance 36
Committees 37
Business Plan Summary 38
Glossary 40

Additional copies of this report and copies of the quarterly reports on the Heritage Fund may be obtained by writing:

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Or by calling: **(780) 427-5364**

Or by visiting our website at: **www.finance.alberta.ca**

Highlights

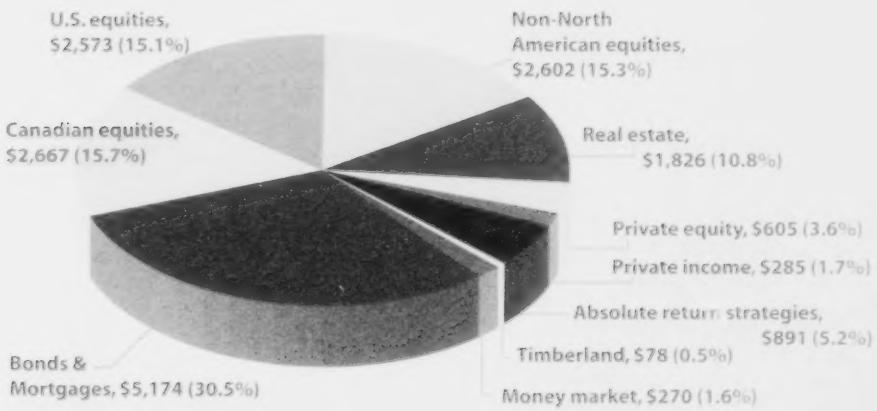
FAIR VALUE OF THE HERITAGE FUND
(in billions)

The fair value of the Heritage Fund (the Fund) was $17.0 billion at March 31, 2008.

» The fair value of the Fund's net assets increased by $463 million in 2007-08. The increase includes new deposits of $918 million and $466 million retained in the Fund for inflation proofing offset by a decline in unrealized capital gains of $921 million. New deposits from the General Revenue Fund (the GRF) are from the Province's higher than expected 2007-08 surplus.

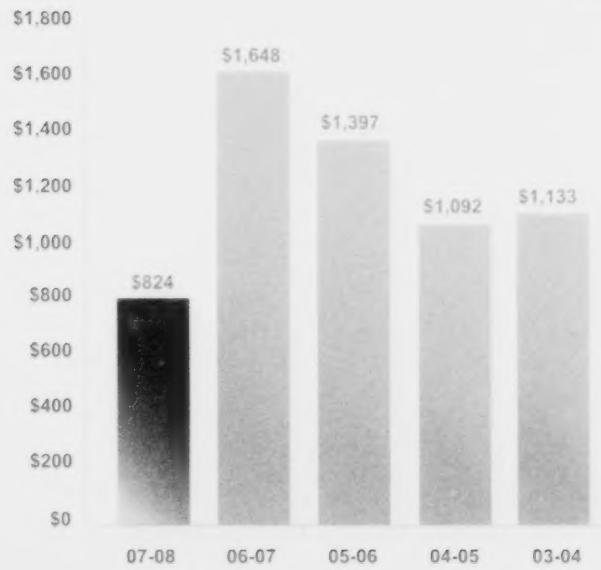
ASSET MIX, at fair value
March 31, 2008
(in millions)

The Fund's investments are diversified among many different asset classes held in markets around the world.


U.S. equities, $2,573 (15.1%)
Non-North American equities, $2,602 (15.3%)
Canadian equities, $2,667 (15.7%)
Real estate, $1,826 (10.8%)
Private equity, $605 (3.6%)
Private income, $285 (1.7%)
Absolute return strategies, $891 (5.2%)
Timberland, $78 (0.5%)
Bonds & Mortgages, $5,174 (30.5%)
Money market, $270 (1.6%)

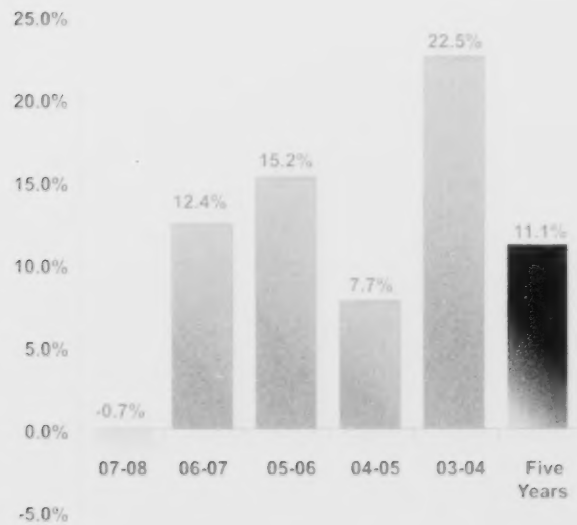
NET INCOME
Fiscal years ending on March 31, 2008
(in millions)

The Fund earned investment income of $824 million in 2007-08, of which $466 million was retained in the Fund for inflation-proofing. Realized losses from U.S. and non-North American equities accounted for the decline in income this year.



» The income earned from the Fund's investments, less the amount retained for inflation-proofing, is transferred to the Province's main operating fund, the GRF, to help pay for government programs.

INVESTMENT RETURNS



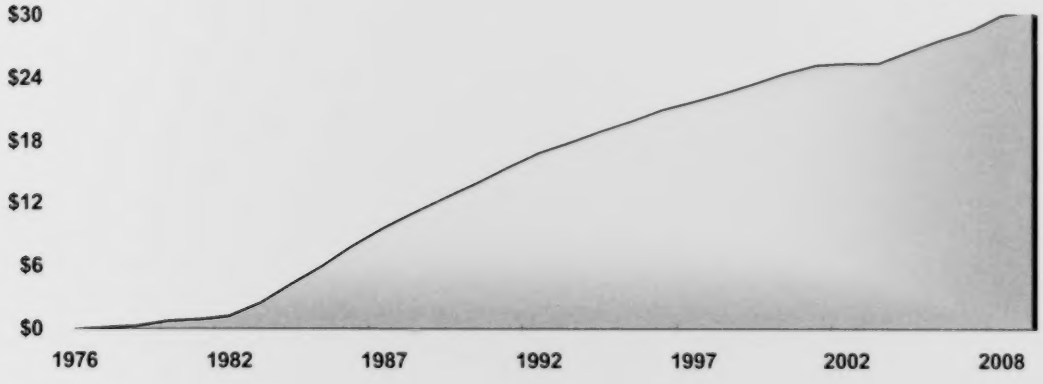
The Fund posted a market value loss of negative 0.7% for the fiscal-year ending March 31, 2008 and an annualized return of 11.1% over five years.

» On a fair value basis, the Fund's realized investment income of $824 million was offset by a decline in unrealized capital gains of $921 million resulting in a market value loss of $97 million or negative 0.7%.

History of the Heritage Fund

- The *Alberta Heritage Savings Trust Fund Act* states the purpose of the Heritage Fund is: "To provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans."
- When the Fund was created in 1976, it received 30% of non-renewable resource revenue. The Fund also retained its investment earnings.
- Facing a budget deficit, the government began transferring investment income from the Fund to the General Revenue Fund starting in September 1982. The amount of non-renewable resource revenue put into the Fund also dropped to 15% in April 1983.
- With a growing debt and the collapse of world oil prices, transfers of revenue to the Heritage Fund stopped in 1987.
- Until the mid-1990s, a total of $3.5 billion was transferred from the Fund and used for capital projects, such as environmental protection, health, agriculture and community development. The Fund was the main source of funding for endowment funds such as the Alberta Heritage Scholarship Fund ($100 million) and Alberta Heritage Foundation for Medical Research Endowment Fund ($300 million).
- The government surveyed Albertans in the mid-1990s about the future of the Fund. Following the results of the survey, the Fund was restructured to focus on long-term investment with inflation-proofing once the debt was repaid.
- The government retained a portion of the Fund's income in some years between 1996 and 2000 to partly offset inflation. In 2005, with the accumulated debt eliminated, the government began annual inflation-proofing of the Fund. The government also passed the *Access to the Future Act* in 2005, which established an endowment within the Fund to benefit post-secondary education.
- Since March 31, 2005, the government has transferred, from its surpluses, $3.918 billion into the Fund including $1 billion to support the advanced education endowment.
- The Fund received $12 billion in resource revenue between 1976 and 1987, with an additional $3.918 billion in deposits over the past three years, for a total of $16 billion. Through its investment earnings, the Fund has contributed $30 billion to Albertans' priorities like healthcare, education, infrastructure, keeping taxes low and debt elimination. At March 31, 2008, the value of the Fund's assets stood at $17.0 billion at fair value, and $16.4 billion at cost.

CONTRIBUTIONS TOWARDS ALBERTANS' PRIORITIES SINCE 1976
(in billions)



Minister of Finance and Enterprise's Report to Albertans on the Alberta Heritage Savings Trust Fund

It is a pleasure to present the 32nd Annual Report of the Alberta Heritage Savings Trust Fund. The Fund represents an important part of Alberta's financial position and is an ongoing legacy for all Albertans.

Fiscal 2007-08 proved to be one of the more difficult years in financial markets. A significant decline in the U.S. housing market and credit concerns with sub-prime mortgages and asset backed commercial paper (ABCP) led to a liquidity and credit crisis and softening in world equity markets in the latter half of the fiscal year. In order to stabilize financial markets and restore investor confidence, central banks responded by lowering interest rates to provide liquidity and stimulate economic activity. The Fund's diversified portfolio has a relatively small exposure to non-bank sponsored ABCP and no direct exposure to U.S. subprime mortgages. However, these events indirectly affected the Fund by lowering the value of its holdings in shares in publicly traded financial institutions and certain asset backed securities. The value of the Fund's foreign investments was also impacted by the stronger Canadian dollar in 2007-08.

As a result, realized investment income of $824 million was offset by a decline in unrealized capital gains of $921 million resulting in a market value loss of $97 million or negative 0.7% for the fiscal 2007-08. The performance of the Fund is assessed over the long term since volatility primarily in equity markets can produce fluctuations in performance from year to year. Over five years, the Fund has returned 11.1% on an annualized basis.

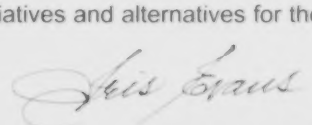
Overall, new deposits in the Fund of $918 million and realized income retained in the Fund for inflation-proofing of $466 million were offset by declines in unrealized capital gains of $921 million. As a result, the Fund's fair value stood at $17.0 billion at March 31, 2008, up $463 million from $16.6 billion at the beginning of the fiscal year.

A number of new initiatives occurred in 2007-08. On January 1, 2008, the investment operations of the Department of Finance and Enterprise were transferred to Alberta Investment Management Corporation (AIMCo). The new corporation provides the day to day investment services for investments totalling about $76 billion, including the Heritage Fund, other government funds and various pension plans. The Minister retains responsibility for setting government policy relative to investments and will provide policy advice following discussions and recommendations from both AIMCo and the Department. It is understood that the Minister will report investment and accounting policies to government as required.

In 2007-08, a comprehensive asset mix review was undertaken which will be completed in early fiscal 2008-09. The Fund's long-term target policy asset mix, as announced in Budget 2008, is adjusted so that its exposure to alternative investments such as hedge funds, private equities and private income increases by 5%. The increase in alternative investments is offset by a decrease in fixed income investments.

In August 2007, the Government of Alberta appointed an independent commission to ensure Albertans are receiving the maximum long-term benefits from the Province's savings and investment funds, including the Heritage Fund. The Financial Investment and Planning Advisory Commission (FIPAC) has submitted a final report to the provincial government for its review.

The Heritage Fund is a symbol of pride to all Albertans. As we look towards the future, we will continue to provide strong leadership and stewardship while exploring new initiatives and alternatives for the benefit of all Albertans and future generations.



Honourable Iris Evans
Minister of Finance and Enterprise

The Year in Review

(April 1, 2007 to March 31, 2008)

At March 31, 2008, the net assets held in the Fund totaled $16.412 billion at cost and $17.044 billion at fair value.

This year, the Fund earned investment income of $824 million and transferred $358 million to the GRF, leaving $466 million retained in the Fund for inflation-proofing. The amount retained in the Fund for inflation-proofing was $182 million more than last year due to an estimated increase in the Canadian gross domestic product price index (GDP deflator) rate to 3.1% from 2.1% last year and a larger asset balance at the beginning of the year.

In 2007-08, the Fund's net assets, at cost, increased by $1,384 million, including $918 million received from the GRF and $466 million retained in the Fund for inflation proofing.

In 2007-08, the Fund's realized net income of $824 million was half of the previous year's realized net income of $1,648 million. Most of the decline in income came from U.S. and non-North American public equities which were negatively impacted by the stronger Canadian dollar and negative returns in foreign equity markets.

The difference between the Fund's cost and fair value of net assets represents unrealized capital gains. At March 31, 2008, unrealized capital gains declined by $921 million, to $632 million from $1,553 million at the beginning of the year.

The decline in unrealized capital gains of $921 million was greater than the Fund's realized net income of $824 million resulting in a market value loss of $97 million or negative 0.7% in 2007-08. Last year, the Fund had a positive market value return of $1.876 billion or positive 12.4%.

The table below summarizes the overall increase in the net assets of the Fund.

Changes in Net Assets
For the Year Ended March 31, 2008
(in millions)

	Fiscal 2007-08		Fiscal 2006-07
	Budget	Actual	Actual
Investment income	$ 1,283	$ 888	$ 1,703
Invesment expenses	(68)	(64)	(55)
Net income (1)	**1,215**	**824**	**1,648**
Transfers to the GRF	(931)	(358)	(1,365)
Income retained in Fund for inflation proofing	284	466	283
Transfers from the GRF (2)	-	918	1,250
Change in cost of net assets	**284**	**1,384**	**1,533**
Cost of net asset, beginning of year	14,947	15,028	13,495
Cost of net assets, end of year	**$ 15,231**	**$ 16,412**	**$ 15,028**
Accumulated unrealized gains		632	1,553
Fair value of net assets, end of year		**$ 17,044**	**$ 16,581**

(1) Budget 2007 includes investment income of $1,219 million less administrative expenses of $4 million
(2) Transfers are recorded when received.

MARKET SUMMARY

The Canadian real estate market represented by the IPD Large Institutional All Property Index posted the strongest returns in 2007-08. The Index increased by an estimated 14.5% in 2007-08 compared to 18.3% last year.

In Canada, the stock market was down compared to last year. Standard & Poor's Toronto Stock Exchange (S&P/TSX) Composite Index increased by 4.0% in 2007-08 compared to 11.4% last year.

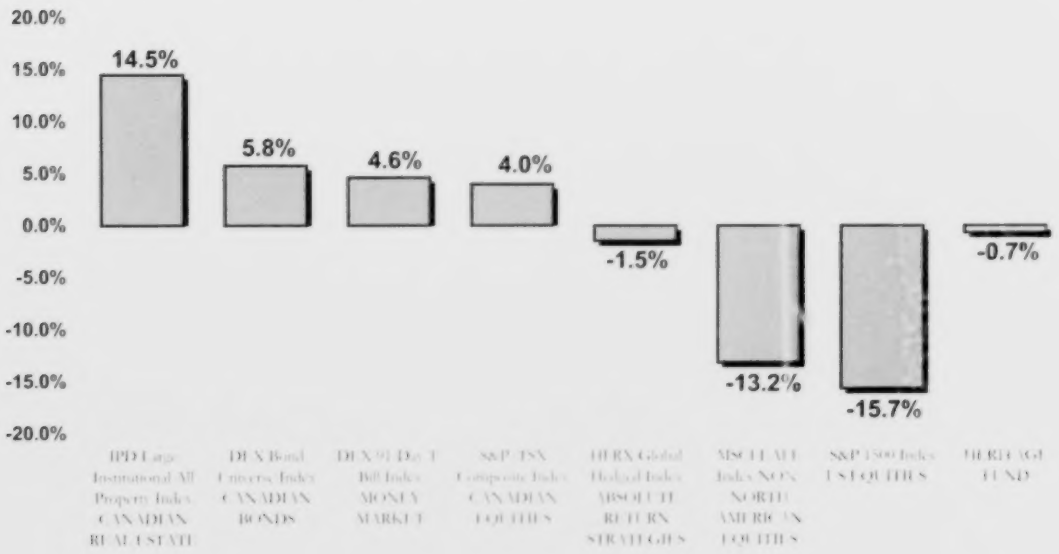
In the U.S., there were negative returns from equities this year. A significant decline in the U.S. housing market and credit concerns with sub-prime mortgages and asset backed commercial paper (ABCP) led to a liquidity and credit crisis which affected the value of financial institutions holding these types of securities. The S&P 1500 Index, which tracks the largest 1,500 American companies, recorded a market value return of negative 5.4% in U.S. dollars in fiscal year 2007-08 compared to an increase of 11.3% last year. When translated into appreciating Canadian dollars, the S&P 1500 Index returned a negative 15.7% this year compared to positive 9.9% last year. At March 31, 2008, one U.S. dollar was worth $1.03 Canadian compared to $1.15 Canadian at the beginning of the year. As a result of the appreciating Canadian dollar, investment returns from U.S. investments were lower when translated into Canadian dollars.

Outside of North America, the MSCI EAFE Index measures the performance of approximately 1,200 companies on 21 country indices around the world. In Canadian dollars, the Index declined by 13.2% in 2007-08 compared to an increase of 18.7% last year.

The Canadian bond market represented by the DEX Bond Universe Index posted a return of 5.8% this year compared to 5.5% last year.

The following chart summarizes the market returns from various indices around the world and the overall return from the Fund in 2007-08. Indices for private equities, private income and timberland are not provided, as these investments are relatively illiquid with no readily available market index.

Returns for Major Markets and the Heritage Fund (in Canadian dollars)



PERFORMANCE MEASURES

In order to measure the performance of the Fund's investment manager, Alberta Investment Management Corporation (AIMCo), the Fund's actual return is compared to the policy benchmark return. The policy benchmark return is measured by calculating the return the policy asset mix would have delivered without active management and represents the total of the weighted average benchmark returns for each asset class.

The Fund's actual return this year was negative 0.7%, under-performing the Fund's policy benchmark return of negative 0.3% resulting in a loss from active management of 0.4%. Over five years, the Fund's annualized return was 11.1%, out-performing its policy benchmark return of 10.2% by 0.9%. The expected long-term rate of return of the Fund is 6.3% which includes the target real rate of return of 4.5% plus annualized inflation of 1.8%**.

In 2007-08, the Fund's real estate and private income investments reported the highest returns of 16.4%.and 12.8% respectively, while U.S. and non-North American equities posted the market value losses of negative 17.7% and negative 12.2% respectively. This year, long-term fixed income securities, U.S. equities, Canadian equities, private equities and money market securities all under-performed their respective benchmarks. Non-North American equities, hedge funds, private income and timberland investments out-performed their respective benchmarks.

The table below shows the market value returns of the Fund and for each asset class in 2007-08 and annualized returns for five years.

Comparison of Actual Returns to Benchmark Returns	Fiscal Year 2007-08 (%)	Annualized Five Year Return (%)
(Reported returns are net of investment expenses)		*(April 2003 - March 2008)*
Overall actual return	**(0.7)**	**11.1**
Policy benchmark return	***(0.3)***	***10.2***
Net value added (lost) from active management	**(0.4)**	**0.9**
LT fixed income	**4.5**	**6.8**
DEX Bond Universe Index	*5.8*	*6.4*
Net value added (lost) from active management	(1.3)	0.4
U.S. public equities	**(17.7)**	**3.4**
S&P 1500 Index	*(15.7)*	*3.8*
Net value lost from active management	(2.0)	(0.4)
Non-North American equities	**(12.2)**	**14.2**
MSCI EAFE Index	*(13.2)*	*13.0*
Net value added from active management	1.0	1.2
Canadian public equities	**2.4**	**18.4**
S&P/TSX Index	*4.0*	*18.5*
Net value lost from active management	(1.6)	(0.1)
Real estate	**16.4**	**17.1**
IPD Large All Property Index (blended return)	*14.5*	*12.8*
Net value added from active management	1.9	4.3
Absolute return strategies	**1.5**	**6.8**
HFRX Global Hedged Index (blended return)	*(1.5)*	*5.8*
Net value added from active management	3.0	1.0
Private equities	**8.1**	**11.0**
*CPI plus 8.0%**	*9.8*	*9.8*
Net value added (lost) from active management	(1.7)	1.2
Private income	**12.8**	**14.8***
*CPI plus 6.0%**	*7.8*	*8.0**
Net value added from active management	5.0	6.8*
Money market	**3.7**	**3.1**
DEX 91-Day T-Bill	*4.6*	*3.4*
Net value lost from active management	(0.9)	(0.3)
Timberland	**6.5**	**n/a**
*CPI plus 4.0%**	*5.8*	*n/a*
Net value added (lost) from active management	0.7	n/a

* Four year annualized return.

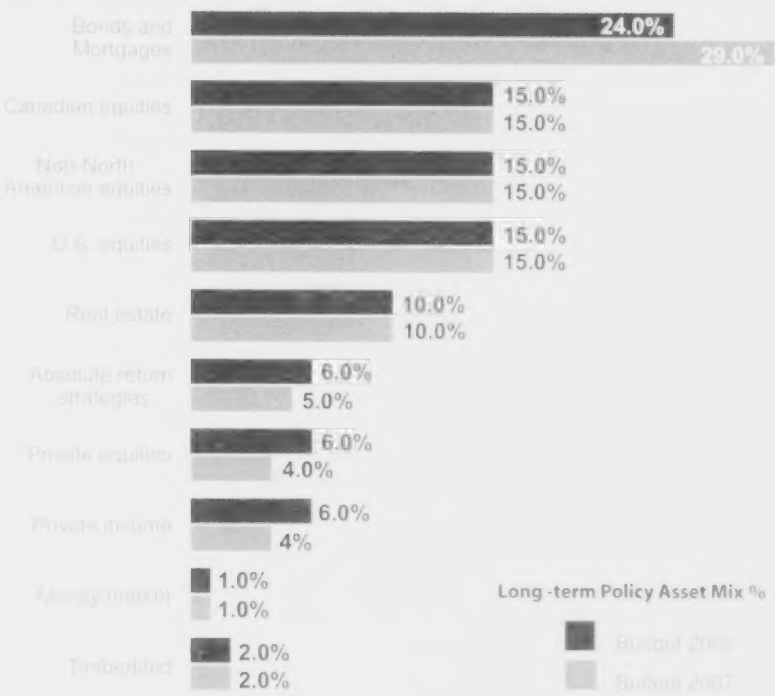
** The Consumer Price Index (CPI) over one and five years (annualized) was approximately 1.8%.

INVESTMENTS

The chart on the right shows the changes in the Fund's long-term target policy asset mix according to the Fund's most recent business plan in Budget 2008.

According to the Fund's business plan, exposure to Bonds and Mortgages is reduced by 5.0% from 29.0% to 24.0%. The decrease in bonds and mortgages is offset by an increase in absolute return strategies (hedge funds) of 1.0%, an increase in private equities of 2.0% and an increase in private income of 2.0%.

While the majority of the Fund's portfolio includes traditional investments like stocks, bonds and real estate, alternative investments are a growing part of the portfolio. Alternative investments include hedge funds, private equities, private income and timberland. These assets are relatively illiquid, have longer investment horizons and take time to achieve long-term policy allocations.



The table below shows the fair value and cost of each asset class and the unrealized gain or loss at March 31, 2008 and March 31, 2007. Unrealized gains and losses represent the difference between the fair value and cost of the investment. Once securities are sold, through portfolio turnover, unrealized gains or losses become realized and are included in investment income for the year. At March 31, 2008, the pool of unrealized gains had declined to $632 million, down $921 million, from $1.553 billion at the beginning of the fiscal year. About 94% of the net unrealized gains are in real estate, up from 35% last year.

Summary of Net Assets

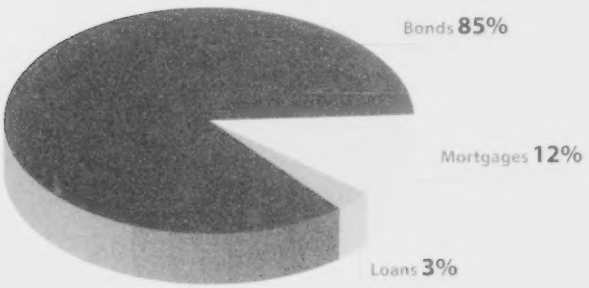
At March 31, 2008 (in millions)	March 31, 2008			March 31, 2007		
	Fair Value	Cost	Unrealized Gain (loss)	Fair Value	Cost	Unrealized Gain
Investments:						
Bonds and mortgages	$ 5,174	$ 5,217	$ (43)	$ 5,087	$ 5,055	$ 32
Canadian equities	2,667	2,684	(17)	2,584	2,283	301
Non-North American equities	2,602	2,692	(90)	2,622	2,366	256
U.S. equities	2,573	2,456	117	2,784	2,517	267
Real estate	1,826	1,233	593	1,764	1,220	544
Absolute return strategies	891	910	(19)	885	818	67
Private equities	605	559	46	405	359	46
Private income	285	259	26	217	200	17
Money market	270	270	-	97	97	-
Timberland	78	59	19	80	57	23
Total Investments	16,971	16,339	**$ 632**	16,525	14,972	**$ 1,553**
Accounts receivable, net (1)	73	73		56	56	
Net assets	**$ 17,044**	**$ 16,412**		**$ 16,581**	**$ 15,028**	

(1) At March 31, 2008, includes receivable from GRF of $113 million.

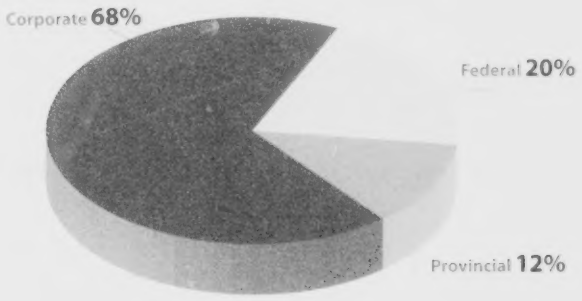
Fixed income securities

Fixed income securities totaled $5.174 billion, or 30.5% of the total portfolio at March 31, 2008. This asset class includes bonds, mortgages and loans issued by many entities such as corporations and various levels of government. The charts below summarize the fixed income portfolio by type of security and issuer.

Summary of Fiscal Income Holdings
(by type of security)



Summary of Fixed Income Holdings
(issued & guaranteed by)



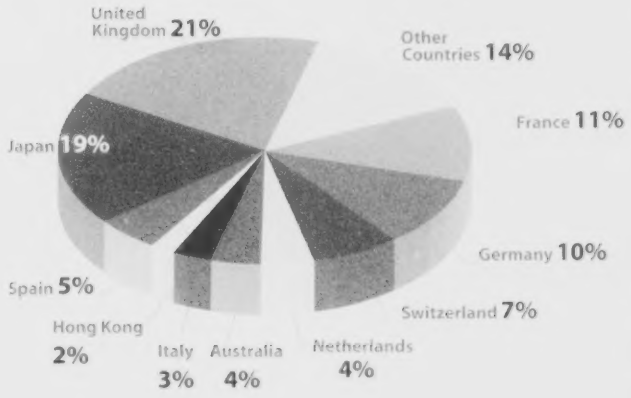
Public equities

Public equities comprise $7.842 billion or 46.1% of the total investment portfolio. The public equity portfolio includes shares of major corporations in Canada, the U.S., Europe, Asia and emerging markets. The table and chart below show the Fund's effective exposure to the major industry sectors in Canada, the U.S. and non-North American markets and the non-North American sector by country.

Public Equities by Major Industry

Percent - % **March 31, 2008**	Canada	United States	Non-North American
Consumer discretionary	5	9	11
Consumer staples	2	10	9
Energy	28	13	9
Financials	29	17	21
Health Care	-	11	7
Industrials	6	13	14
Information technology	5	16	6
Materials	18	4	10
Telecommunications	6	3	8
Utilities	1	4	5
	100	100	100
Fair Value ($ billions)	$ 2.667	$ 2.573	$ 2.602
Percent of public equities	34%	33%	33%

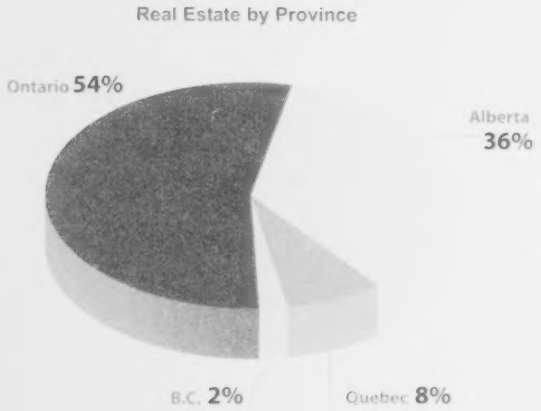
Non-North American Equities by Country



Real estate

Real estate investments are held in the Private Real Estate Pool and Foreign Private Real Estate Pool. They comprise $1.826 billion or 10.8% of the investment portfolio.

The following charts show the distribution of Canadian real estate investments by sector and by province.



Absolute return strategies

Absolute return strategies (hedge funds) comprised $891 million, or 5.2%. This class of investment encompasses a wide variety of strategies with the objective of realizing positive returns regardless of the overall market direction. A common feature of many of these strategies is buying undervalued securities and selling short overvalued securities.

Private equities

Private equities comprise $605 million or 3.6% of the total investment portfolio. Private equity investments include all forms of private placement investing, i.e. venture capital and merchant banking. Venture capital investments include early stage financings and, in some cases, start-up companies financing. Merchant banking transactions include expansion capital, acquisition financings, management buyouts, family succession, turnaround financings, project financings and leverage reductions.

Private income investments

Private income securities comprise $285 million or 1.7%. This asset class provides a hedge against inflation and generally includes infrastructure related projects such as toll roads, pipelines and privately held utilities. These investments provide high current income which tends to increase with inflation.

Money market

Money market investments include cash and short-term investments, which comprises $270 million, or 1.6% of the total investment portfolio at March 31, 2008. Cash includes deposits in the Consolidated Cash Investment Trust Fund (CCITF) and underlying cash and short-term investments held in the Currency Alpha Pool and Tactical Asset Allocation Pool. The CCITF portfolio of investments primarily includes high-quality short-term and mid-term fixed income securities with a maximum term-to-maturity of three years.

Timberland

Timberland investments comprise $78 million or 0.5% of the total portfolio and includes primarily an investment in a partnership interest in forestry land located in British Columbia which includes land held for higher and better use.

INVESTMENT INCOME

Investments and investment income are recorded in the financial statements on a cost basis. During the year ended March 31, 2008, the Fund earned investment income of $824 million compared to $1,648 million last year. A stronger Canadian dollar and declining foreign equity markets in 2007-08 led to realized losses from U.S. and non-North American equities.

Of the total investment income earned in 2007-08, $614 million (2006-07: $598 million) came from interest, dividends and security lending income, net of administration fees. Net realized gains from sale of securities and losses from derivative transactions totaled $210 million compared to $1,050 million last year. Investment income includes the writedown of various securities totalling $225 million (2006-07: $38 million). The majority of the writedowns taken in the year related to certain structured investment vehicles totalling $130 million and various public and private equities totalling $95 million.

The fair value of investments provides information to assess the investment performance of the Fund against market-based benchmarks. Investment income on a fair value basis includes current period changes in unrealized gains. On a fair value basis, the Fund recorded a loss of $97 million for the year ended March 31, 2008 compared to income of $1,876 million last year.

The table below shows the net income (loss) of the Fund, on a cost and fair value basis, for each asset class.

Summary of Investment Income
For the year ended March 31, 2008
(in millons)

	Realized income (loss) cost basis		Increase (decrease) in unrealized gains		Income (loss) fair value basis	
	2008	2007	**2008**	2007	**2008**	2007
Canadian equities	**$ 398**	$ 386	**$ (318)**	$ (72)	**$ 80**	$ 314
Bonds and mortgages	**294**	317	**(75)**	(20)	**219**	297
Real estate	**221**	144	**49**	204	**270**	348
Absolute return strategies	**99**	14	**(86)**	64	**13**	78
Private equity	**44**	39	**-**	31	**44**	70
Non-North American equities	**30**	540	**(346)**	(99)	**(316)**	441
Private income	**22**	13	**9**	17	**31**	30
Money market	**9**	7	**-**	-	**9**	7
Timberland	**8**	2	**(4)**	27	**4**	29
U.S. equities	**(301)**	186	**(150)**	76	**(451)**	262
Investment income	**824**	1,648	**(921)**	228	**(97)**	1,876

INVESTMENT EXPENSES

The day to day investment services for the Fund are provided by AIMCo. AIMCo invests the assets for the long-term benefit of Albertans, subject to legislation and the investment policies approved by the Minister of Finance and Enterprise. AIMCo manages the majority of the Fund's investments directly through pooled investment funds. However, some investments are managed by third party investment managers selected and monitored by AIMCo in order to achieve greater diversification, access external expertise and specialized knowledge and to reduce operational complexity.

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Fund. The Fund recognizes portfolio management and administration expenses incurred directly by the Fund and its share of expenses through pooled investment funds. Investment services provided directly by AIMCo are charged directly to the Fund and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized.

Investment services provided directly by AIMCo or through external managers include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit. The Department of Finance and Enterprise provides investment accounting and reporting for the Fund, investment policy oversight and treasury management services.

Investment expenses as a percentage of net assets are provided below:

Investment expenses
For the year ended March 31, 2008
(in millions)

	2008	2007
Investment operations of Alberta Finance and Enterprise (1)	**$ 9**	$ 5
External manager fees	**55**	50
Total investment expenses	**$ 64**	$ 55
Expenses as a percent of net assets at fair value	**0.38%**	0.33%

(1) Effective January 1, 2008, the investment operations of the Department of Finance and Enterprise were transferred to AIMCo.

Historical Summary of Operations
May 19, 1976 to March 31, 2008

(in millions)

Fiscal Year	NET INCOME (LOSS) (a)	TRANSFERS TO THE FUND: Resource Revenue Allocation	TRANSFERS TO THE FUND: New Deposits	TRANSFERS TO THE FUND: Advanced Education Endowment (b)	TRANSFERS (FROM) THE FUND: Section 8 (2) Income Transfers (c)		TRANSFERS (FROM) THE FUND: Capital Project Expenditures	Fund Equity, at cost
1976-77	$88	$2,120	-	-	-		($36)	$2,172
1977-78	194	931	-	-	-		(87)	3,210
1978-79	294	1,059	-	-	-		(132)	4,431
1979-80	343	1,332	-	-	-		(478)	5,628
1980-81	724	1,445	-	-	-		(227)	7,570
1981-82	1,007	1,434	-	-	-		(349)	9,662
1982-83	1,482	1,370	-	-	(867)		(296)	11,351
1983-84	1,467	720	-	-	(1,469)		(330)	11,739
1984-85	1,575	736	-	-	(1,575)		(228)	12,247
1985-86	1,667	685	-	-	(1,667)		(240)	12,692
1986-87	1,445	217	-	-	(1,445)		(227)	12,682
1987-88	1,353	-	-	-	(1,353)		(129)	12,553
1988-89	1,252	-	-	-	(1,252)		(155)	12,398
1989-90	1,244	-	-	-	(1,244)		(134)	12,264
1990-91	1,337	-	-	-	(1,337)		(150)	12,114
1991-92	1,382	-	-	-	(1,382)		(84)	12,030
1992-93	785	-	-	-	(785)		(84)	11,946
1993-94	1,103	-	-	-	(1,103)		(71)	11,875
1994-95	914	-	-	-	(914)		(49)	11,826
1995-96	1,046	-	-	-	(1,046)		-	11,826
1996-97	932	-	-	-	(756)	(d)	-	12,002
1997-98	947	-	-	-	(922)	(d)	-	12,027
1998-99	932	-	-	-	(932)		-	12,027
1999-00	1,169	-	-	-	(939)	(d)	-	12,257
2000-01	706	-	-	-	(706)		-	12,257
2001-02	206	-	-	-	(206)		-	12,257
2002-03	(894)	-	-	-	-		-	11,363
2003-04	1,133	-	-	-	(1,133)		-	11,363
2004-05	1,092	-	-	-	(1,092)		-	11,363
2005-06	1,397	-	1,000	750	(1,015)	(d)	-	13,495
2006-07	1,648	-	1,000	250	(1,365)	(d)	-	15,028
2007-08	824	-	918	-	(358)	(d)	-	16,412
TOTAL	**$30,794**	**$12,049**	**$2,918**	**$1,000**	**($26,863)**		**($3,486)**	**$16,412**

a) The net income of the Fund including its assets and liabilities, net of consolidation adjustments, is included in the consolidated financial statements of the Ministry of Finance and Enterprise and Government of Alberta.

b) The *Access to the Future Act* allows for a maximum of $3 billion to be transferred into the Fund to support the advanced education endowment.

c) In accordance with section 8(2) of the *Alberta Heritage Savings Trust Fund Act*, the net income of the Fund, less any amount retained in the Fund to maintain its value from inflation, shall be transferred to the GRF, annually in a manner determined by the Minister of Finance and Enterprise.

d) Includes amount retained in the Fund for inflation-proofing represented by the difference between net income and amount transferred to GRF. At March 31, 2008, the accumulated amount retained in the Fund for inflation-proofing was $1,562 million (2007: $1,096 million).

Financial Statements

Auditor's Report 16
Statement of Financial Position 17
Statement of Operations and Net Assets 17
Statement of Cash Flows 18
Notes to the Financial Statements 19
Schedule of Investments in Fixed Income Securities 30
Schedule of Investment Real Estate 31
Schedule of Effective Net Investment in Canadian Equities 32
Schedule of Effective Net Investment in United States Equities 33
Schedule of Effective Net Investment in Non-North American Equities 34
Schedule of Investment Returns 35

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the statement of financial position of the Alberta Heritage Savings Trust Fund as at March 31, 2008 and the statements of operations and net assets and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
May 16, 2008

FCA
Auditor General

ALBERTA HERITAGE SAVINGS TRUST FUND
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2008
(millions)

	2008	2007
Assets		
Portfolio investments (Note 3)	$ 16,339	$ 14,972
Receivable from sale of investments and accrued income	21	53
Due from the General Revenue Fund	113	8
	$ 16,473	$ 15,033
Liabilities		
Liabilities for investment purchases	$ 60	$ 5
Administration expense payable	1	-
	61	5
Net Assets (Note 6)	16,412	15,028
	$ 16,473	$ 15,033

ALBERTA HERITAGE SAVINGS TRUST FUND
STATEMENT OF OPERATIONS AND NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2008
(millions)

	2008		2007
	Budget	Actual	Actual
Investment income		$ 888	$ 1,703
Investment expenses (Note 8)		(64)	(55)
Net income (Note 7)	$ 1,215	824	1,648
Transfers to the General Revenue Fund (Note 6c)	(931)	(358)	(1,365)
Amount retained for inflation-proofing (Note 6c)	284	466	283
Transfers from the General Revenue Fund (Notes 6a & 6b)	-	918	1,250
Change in net assets	$ 284	1,384	1,533
Net Assets at beginning of year		15,028	13,495
Net Assets at end of year		$ 16,412	$ 15,028

The accompanying notes and schedules are part of these financial statements.

ALBERTA HERITAGE SAVINGS TRUST FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2008
(millions)

	2008	2007
Operating transactions		
Net income	$ 824	$ 1,648
Non-cash items included in net income	(166)	(240)
	658	1,408
Decrease (increase) in accounts receivable	32	(26)
Increase (decrease) in accounts payable	56	(131)
Cash provided by operating transactions	746	1,251
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	1,507	1,889
Purchase of investments	(2,513)	(3,147)
Cash applied to investing transactions	(1,006)	(1,258)
Transfers		
Transfers from the General Revenue Fund	918	1,250
Transfers to the General Revenue Fund	(358)	(1,365)
Increase in amounts due from the General Revenue Fund	(105)	(85)
Cash provided by (applied to) transfers	455	(200)
Increase (decrease) in cash	195	(207)
Cash at beginning of year	22	229
Cash at end of year	$ 217	$ 22
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3)	$ 217	$ 22

The accompanying notes and schedules are part of these financial statements.

ALBERTA HERITAGE SAVINGS TRUST FUND

Notes to the Financial Statements

FOR THE YEAR ENDED MARCH 31, 2008
(millions)

NOTE 1 AUTHORITY AND MISSION

The Alberta Heritage Savings Trust Fund operates under the authority of the *Alberta Heritage Savings Trust Fund Act (the Act)*, Chapter A-23, Revised Statutes of Alberta 2000, as amended.

The preamble to the Act describes the mission of the Fund as follows:

"To provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans."

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting.

The accounting policies of significance to the Fund are as follows:

(a) Portfolio Investments

Fixed-income securities, mortgages, equities, real estate investments, absolute return strategies and timberland investments held directly by the Fund or by pooled investment funds are recorded at cost. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the investments.

Investments in loans are recorded at cost less any allowance for credit loss. Where there is no longer reasonable assurance of timely collection of the full amount of principal and interest of a loan, a specific provision for credit loss is made and the carrying amount of the loan is reduced to its estimated realizable amount.

Investments are recorded as of the trade date.

The cost of disposals is determined on the average cost basis.

Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

(b) Investment Income and Expenses

Investment income and expenses, as reported in Notes 7 and 8, are recorded on the accrual basis. Investment income is accrued when there is reasonable assurance as to its measurement and collectability. When a loan becomes impaired, recognition of interest income in accordance with the terms of the original loan agreement ceases. Any subsequent payments received on an impaired loan are applied to reduce the loan's book value. For certain investments such as private equities, private income, private real estate, absolute return strategies and timberland investments, the actual income and expenses may not be known at the time the financial statements are prepared. In these cases, estimates are used, which may vary from actual income and expenses.

Gains and losses arising as a result of disposals of investments are included in the determination of investment income.

Changes in fair value of derivative contracts are included in investment income except for certain derivative contracts designated as hedges of market risks for purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the statement of income in the same period as the gains and losses of the security being hedged.

Where a hedge relationship is designated, the hedge is documented at inception. The documentation identifies the specific asset being hedged, the risk that is being hedged, type of derivative used and the matching of critical terms of both the hedged security and the hedging derivative for purposes of measuring effectiveness. The derivative must be highly effective in accomplishing the objective of offsetting either changes in the fair value or cash flows attributable to the risk being hedged both at inception and over the life of the hedge. When the derivative no longer qualifies as an effective hedge, the hedge accounting is discontinued prospectively. If hedge accounting is discontinued, gains and losses resulting from the changes in fair value of the derivative contract are recognized in income immediately.

(c) Foreign Currency

Foreign currency transactions are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year end exchange rates. Exchange differences on transactions are included in the determination of investment income.

(d) Investment Valuation

Portfolio investments are recorded in the financial statements at cost. The fair value of investments is provided for information purposes and is disclosed in Note 3 and Schedules A to E.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, private income, private real estate, loans, absolute return strategies and timberland investments, and other investments where no readily available market exists. The fair values of these investments are based on estimates. Estimated fair values may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

Fair value of investments held either directly by the Fund or by pooled investment funds are determined as follows:

(i) Public fixed-income securities and equities are valued at the period-end closing sale price, or the average of the latest bid and ask prices quoted by an independent securities valuation company.

(ii) Mortgages and private fixed-income securities are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

(iii) The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.

(iv) The estimated fair value of real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows.

(v) The fair value of Absolute Return Strategy Pool investments is estimated by external managers.

(vi) The fair value of loans is estimated by management based on the present value of discounted cash flows.

(vii) The fair value of timberland investments is appraised annually by independent third party evaluators.

(viii) The fair value of deposits, receivables, accrued interest and payables is estimated to approximate their book values.

(e) Valuation of Derivative Contracts

Derivative contracts include equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts, equity index futures contracts and swap option contracts. As disclosed in Note 4, the value of derivative contracts is included in the fair value of pooled investment funds. The estimated fair value of derivative contracts at the reporting date is determined by the following methods:

(i) Equity and bond index swaps are valued based on changes in the appropriate market-based index net of accrued floating rate interest.

(ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates.

(iii) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

(iv) Forward foreign exchange contracts and equity index futures contracts are valued based on quoted market prices.

(v) Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap.

NOTE 3 PORTFOLIO INVESTMENTS (in millions)

	2008			2007		
	Cost	Fair Value	%	Cost	Fair Value	%
Cash and Absolute Return Strategies						
Money Market						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 217	$ 217	1.3	$ 22	$ 22	0.1
Currency Alpha Pool (b)	27	29	0.2	23	23	0.2
Tactical Asset Allocation Pool (c)	26	24	0.1	52	52	0.3
	270	**270**	**1.6**	**97**	**97**	**0.6**
Absolute Return Strategies (d)	**910**	**891**	**5.2**	**818**	**885**	**5.4**
Fixed-Income Securities (Schedule A)						
Universe Fixed Income Pool (e)	4,458	4,407	26.0	4,372	4,398	26.6
Private Mortgage Pool (f)	618	626	3.7	585	591	3.6
Loans, directly held (g)	141	141	0.8	98	98	0.6
	5,217	**5,174**	**30.5**	**5,055**	**5,087**	**30.8**
Inflation Sensitive						
Real Estate **(Schedule B)**						
Private Real Estate Pool (h)	1,148	1,747	10.3	1,133	1,676	10.1
Foreign Private Real Estate Pool (i)	85	79	0.5	87	88	0.6
	1,233	**1,826**	**10.8**	**1,220**	**1,764**	**10.7**
Private Income (j)	**259**	**285**	**1.7**	**200**	**217**	**1.3**
Timberland (k)	**59**	**78**	**0.5**	**57**	**80**	**0.5**
Equities						
Canadian **(Schedule C)**						
Canadian Structured Equity Pool (l)	573	545	3.2	955	1,019	6.2
Canadian Pooled Equity Fund (m)	633	686	4.0	557	718	4.3
Canadian Equity Enhanced Index Pool (n)	319	335	2.0	308	353	2.1
Canadian Large Cap Equity Pool (o)	286	253	1.5	254	255	1.5
Growing Equity Income Pool (p)	146	145	0.9	124	149	0.9
Canadian Multi-Cap Pool (q)	727	703	4.1	305	310	1.9
Tactical Asset Allocation Pool Canadian futures	-	-	-	(220)	(220)	(1.3)
	2,684	**2,667**	**15.7**	**2,283**	**2,584**	**15.6**
United States **(Schedule D)**						
U.S. Structured Equity Pool (r)	1,551	1,684	9.9	1,412	1,618	9.8
U.S. Small/Mid Cap Equity Pool (s)	303	298	1.8	277	309	1.8
Portable Alpha United States Equity Pool (t)	558	552	3.2	562	591	3.6
Growing Equity Income Pool (p)	44	39	0.2	49	49	0.3
Tactical Asset Allocation Pool US futures	-	-	-	217	217	1.3
	2,456	**2,573**	**15.1**	**2,517**	**2,784**	**16.8**
Non-North American **(Schedule E)**						
EAFE Active Equity Pool (u)	2,060	1,996	11.7	1,746	1,980	12.0
EAFE Structured Equity Pool (v)	522	502	3.0	493	475	2.9
Emerging Markets Equity Pool (w)	110	104	0.6	127	167	1.0
	2,692	**2,602**	**15.3**	**2,366**	**2,622**	**15.9**
Private Equities (j)	**559**	**605**	**3.6**	**359**	**405**	**2.4**
Total Investments (x)	**$ 16,339**	**$ 16,971**	**100.0**	**$ 14,972**	**$ 16,525**	**100.0**

Note 3 (cont'd)

The majority of the Fund's investments are held in pooled investment funds established and administered by Alberta Finance and Enterprise. Pooled investment funds have a market based unit value that is used to allocate income to participants and to value purchases and sales of pool units. As at March 31, 2008, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	2008	**2007**
Absolute Return Strategy Pool	84.2	86.1
Canadian Equity Enhanced Index Pool	80.6	25.2
Canadian Large Cap Equity Pool	13.6	13.0
Canadian Multi-Cap Pool	48.3	45.5
Canadian Pooled Equity Fund	53.9	54.2
Canadian Structured Equity Pool	43.8	46.8
Currency Alpha Pool	37.2	37.2
EAFE Active Equity Pool	30.8	30.2
EAFE Structured Equity Pool	41.8	40.6
Emerging Markets Equity Pool	22.1	24.5
Foreign Private Equity Pool (02)	87.5	87.5
Foreign Private Equity Pool (05)	87.3	87.3
Foreign Private Real Estate Pool	87.2	87.1
Global Private Equity Pool (07)	85.2	85.2
Global Private Equity Pool (08)	88.2	-
Growing Equity Income Pool	53.4	54.1
Portable Alpha United States Equity Pool	80.0	84.2
Private Equity Pool	13.6	13.6
Private Equity Pool (02)	88.8	88.8
Private Equity Pool (04)	89.0	89.0
Private Equity Pool (98)	100.0	100.0
Private Income Pool	88.6	88.5
Private Income Pool 2	86.7	86.7
Private Mortgage Pool	33.9	38.7
Private Real Estate Pool	35.3	36.6
Tactical Asset Allocation Pool	82.1	83.7
Timberland Pool	87.6	87.6
U.S. Small/Mid Cap Equity Pool	23.0	23.9
U.S. Structured Equity Pool	42.5	37.6
Universe Fixed Income Pool	45.6	41.8

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at March 31, 2008, securities held by the Fund have an average effective market yield of 4.81% per annum (2007: 4.36% per annum).

(b) The Currency Alpha Pool is managed with the objective of providing a fair return over a four-year moving period while reducing return volatility through multiple manager investment style and strategies. The return is achieved through active currency management with currency positions established primarily through forward foreign exchange contracts. Participants deposit into the Pool a modest amount of cash to minimize rebalancing of cash flows in or out of the Pool when the forward foreign exchange contracts settle.

(c) The Tactical Asset Allocation Pool provides participants with a quick, effective and efficient way to earn excess returns, on an opportunistic basis, by altering the portfolio weights of broad asset classes using synthetic instruments. At March 31, 2008, the Pool is comprised of cash and fixed income securities and a neutral position through United States equity index futures. Cash and short-term securities held by the Pool support approximately 5% to 10% of the Pool's notional exposure in United States equity index futures contracts.

(d) The Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the Hedge Fund Research Inc. Global Index. The Pool uses external managers who employ various investment strategies. These strategies are expected to produce absolute positive investment returns with lower volatility.

(e) The Universe Fixed Income Pool is managed with the objective of providing above average returns compared to the total return of the DEX Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The excess return is achieved through management of portfolio duration and sector rotation. The portfolio is comprised of high quality Canadian fixed-income instruments and debt related derivatives. As at March 31, 2008, securities held by the Pool have an average effective market yield of 5.0% per annum (2007: 4.5% per annum) and the following term structure based on principal amount: under 1 year: 4% (2007: 3%); 1 to 5 years: 32% (2007: 33%); 5 to 10 years: 34% (2007: 34%); 10 to 20 years: 12% (2007: 11%); and over 20 years: 18% (2007: 19%).

(f) The Private Mortgage Pool is managed with the objective of providing investment returns higher than attainable from the DEX Universe Bond Index over a four-year period or longer. The portfolio is comprised primarily of high quality commercial mortgage loans (93.5%), specialty mortgages (1.0%) and provincial bond residuals (5.5%). To limit investment risk, mortgage loans are restricted to first mortgage loans, diversified by property usage and geographic location, and include a small portion of NHA insured loans. As at March 31, 2008, securities held by the Pool have an average effective market yield of 4.91% per annum (2007: 5.09% per annum) and the following term structure based on principal amount: under 1 year: 3% (2007: 6%); 1 to 5 years: 12% (2007: 15%); 5 to 10 years: 61% (2007: 54%); 10 to 20 years: 5% (2007: 5%); and over 20 years: 19% (2007: 20%).

(g) As at March 31, 2008, the carrying value of the investment in loans, excluding accrued interest, includes the Ridley Grain loan amounting to $138 million (2007: $96 million) and the Vencap loan amounting to $2.5 million (2007: $2 million).

- Under the terms of the loan to Ridley Grain, 11% Participating First Mortgage Bonds due July 31, 2015, interest is compounded semi-annually and payable annually to the extent of available cash flow and any shortfall is to be deferred and capitalized. The principal of $138 million and deferred interest is repayable on or before July 31, 2015. Deferred interest at March 31, 2008 amounted to $43.5 million (2007: $90 million). The increase in the carrying value of the Ridley Grain loan resulted from a reduction in the provision for decline in estimated realizable value. Grain throughput volumes are the main determinant of profitability of the grain terminal and the value of the loan to the Fund. Due to the uncertainty of forecasting the grain throughput volumes, income from the participating bonds is recognized when it is measurable and collectable.

- The principal amount of the Vencap loan, amounting to $53 million, is due July 2046 and bears no interest. The increase in the carrying value of the Vencap loan resulted from amortization of the loan on a constant yield basis.

(h) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the IPD Large Institutional All Property Index. Real estate is held through intermediary companies, which have issued, to the Pool, common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. As real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities, the Pool provides diversification from the securities market with opportunities for high return.

(i) The Foreign Private Real Estate Pool is managed with the objective of providing investment returns higher than the IPD Large Institutional All Property Index. The Pool provides diverse exposure to non-domestic real estate by investing in foreign real estate backed securities and assets.

(j) The Private Income Pools invest in infrastructure related projects that are structured to yield high current income with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 6.0%. Private Equity Pools are managed with the objective of providing investment returns higher than the CPI plus 8.0%. The Private Equity Portfolio consists of the Private Equity Pool, PEP98, PEP02, PEP04, the Foreign Private Equity Pool 2002, the Foreign Private Equity Pool 2005, the Global Private Equity Pool 2007 and the Global Private Equity Pool 2008. Private equity investments are held in institutionally sponsored private equity pools. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool.

(k) The Timberland Pool provides high current income and long investment horizons. The timberland investment is primarily a partnership interest in forestry land and land held for higher and better use located in British Columbia. The performance objective is to earn a return higher than CPI plus 4%.

(l) The Canadian Structured Equity Pool is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange S&P/TSX Composite Index. The portfolio is comprised of publicly traded Canadian equities and structured investments replicating the S&P/TSX 60 Index. The Pool's investment in units of the Floating Rate Note Pool (FRNP) is used as the underlying securities to support the index swaps of the pool. FRNP is managed with the objective of generating floating rate income needed for the swap obligations in respect of structured investments in foreign equities, domestic equities and domestic bonds. Through the use of interest rate swaps, FRNP provides investment opportunities in high quality floating-rate instruments with remaining term-to-maturity of five years or less.

(m) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the S&P/TSX Composite Index while maintaining maximum preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection while remaining sector neutral.

(n) The Canadian Equity Enhanced Index Pool allows participants the opportunity to gain investment exposure to the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year moving average period. The portfolio is comprised of publicly traded equities in Canadian corporations. The enhanced index generates a consistent level of return above the Index with relatively low risk.

(o) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities. The portfolios are actively managed by external managers with expertise in the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.

(p) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income by investing in mature Canadian and U.S. companies with strong financial characteristics and growing distributions. Risk is reduced by holding established, well-capitalized companies. The performance of the pool is measured against the total return of a custom S&P/TSX Composite Index for dividend paying stocks.

(q) The Canadian Multi-Cap Pool allows participants to gain investment exposure to the Canadian equity market through internally managed structured investments replicating the S&P/TSX 60 Index and external actively managed Canadian small and mid cap investments. The performance of the pool is measured against the total return of the S&P/TSX Composite Index over a four-year moving average period. The Pool's investment in units of the FRNP is used as the underlying securities to support the index swaps of the pool (see Note 3 (l)).

(r) Publicly traded U.S. equities held in the U.S. Structured Equity Pool replicate the Standard & Poor's (S&P) 500 Index. The performance objective is to provide returns comparable to the total return of the S&P 500 Index over a four-year period. The Pool's investment in units of the FRNP is used as the underlying securities to support the index swaps of the pool (see Note 3(l)).

(s) The U.S. Small/Mid Cap Equity Pool consists of one portfolio of publicly traded U.S. equities. The portfolio is actively managed by an external manager with expertise in the small cap and mid cap U.S. equity market. The performance objective is to provide returns higher than the total return of the Russell 2500 Index over a four-year period.

(t) The Portable Alpha United States Equity Pool consists of futures and swap contracts which provide exposure to the U.S. equity market by replicating the S&P 500 Index and investments in value added absolute return strategies. The performance objective is to provide returns higher than the total return of the S&P 500 Index over a four-year period.

(u) The Europe, Australasia and Far East (EAFE) Active Equity Pool consists of multiple portfolios of publicly traded non-North American equities. Portfolios are actively managed by external managers with European and Pacific Basin mandates. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period.

(v) The EAFE Structured Equity Pool is managed with the objective to provide returns comparable to the total return of the MSCI EAFE Index over a four-year period. The pool provides exposure to EAFE markets through the use of structured investments such as foreign equity index swaps. The pool also invests in the FRNP to generate the floating rate cash flows needed for its equity swap obligations (see Note 3 (l)).

(w) The Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolio is actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital Index Emerging Markets Free (MSCI EMF) Index over a four-year period.

(x) Where there has been a loss in value of an investment that is other than a temporary decline, the cost of the investment is written down to recognize the loss (see Note 2 (a)). Where the fair value remains less than cost, after recording a writedown, it is management's best judgement that the decline in value is caused by short-term market trends and is temporary in nature.

NOTE 4 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Fund uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

(i) A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter party to a second counter party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. There are underlying securities supporting all swaps. Leveraging is not allowed.

(ii) Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) An equity index futures contract is an agreement to receive or pay cash based on changes in the level of the specified stock index.

(iv) Swap option contracts include the right, but not the obligation, to enter into an interest rate swap at a preset rate within a specific period of time.

The following is a summary of the Fund's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at March 31, 2008 (in millions):

	Maturity			2008		2007	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
Equity index swap contracts	94%	6%	-	$ 3,493	$ 10	$ 3,511	$ (3)
Interest rate swap contracts	6%	16%	78%	2,511	(23)	2,753	(6)
Forward foreign exchange contracts	100%	-	-	2,779	(50)	2,262	(2)
Cross-currency interest rate swaps	15%	54%	31%	937	6	1,035	30
Credit default swap contracts	2%	20%	78%	4,819	(31)	6,679	(22)
Bond index swap contracts	100%	-	-	462	24	1,561	2
Equity index futures contracts	100%	-	-	723	24	1,206	29
Swap option contracts	44%	-	56%	2,375	1	4,997	-
				$ 18,099	$ (39)	$ 24,004	$ 28

(a) The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Fund attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing (A+ or greater).

(b) The method of determining the fair value of derivative contracts is described in Note 2 (e).

NOTE 5 INVESTMENT RISK MANAGEMENT

Income and financial returns of the Fund are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

The Standing Committee on the Alberta Heritage Savings Trust Fund reviews and approves the business plan of the Fund. In order to earn an optimal financial return at an acceptable level of risk, the Business Plan proposed the following asset mix policy for the Fund.

Equities	51.0%
Fixed income securities	24.0%
Inflation sensitive	18.0%
Cash and Absolute Return Strategies	7.0%

Risk is reduced through asset class diversification, diversification within each asset class, quality and duration constraints on fixed-income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 4). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in foreign currency (see Note 4).

NOTE 6 NET ASSETS (in millions)

Net assets represent the difference between the carrying value of assets held by the Fund and its liabilities. The following table shows accumulated net income and transfers to (from) the Fund since the Fund was created on May 19, 1976:

	Cumulative since 1976	
	2008	2007
Accumulated net income	$ 30,794	$ 29,970
Transfers to the Fund		
Resource Revenue (1976-1987)	12,049	12,049
Access to the Future (a)	1,000	1,000
Voted payments (b)	2,918	2,000
	15,967	15,049
Transfers (from) the Fund		
Section 8(2) transfers (c)		
Income	(28,425)	(27,601)
Amount Retained for Inflation-proofing	1,562	1,096
	(26,863)	(26,505)
Capital Expenditures (1976-1995) (d)	(3,486)	(3,486)
	(30,349)	(29,991)
Net Assets at cost	**$ 16,412**	**$ 15,028**
Net Assets at fair value	**$ 17,044**	**$ 16,581**

(a) Section 9.1 of the Act and Section 4(5) of the *Access to the Future Act* provides that up to $3 billion may be transferred from the GRF to the fund.

(b) During the year, the Fund received $918 million from the GRF.

(c) During the year, the Fund earned net income of $824 million of which $466 was retained in the Fund for inflation proofing and $358 million was transferred to the GRF. In accordance with section 8(2) of the Act, the net income of the Fund, less any amount retained in the Fund to maintain its value, in accordance with section 11(1), shall be transferred to the GRF annually in a manner determined by the Minister of Finance and Enterprise. The estimated amount retained from income of the Fund is determined by multiplying the total equity of the Fund before the amount retained for inflation proofing by the estimated percentage increase in the Canadian gross domestic product price index (GDP Index) for the year.

(d) Capital expenditures include transfers of $300 million to the Alberta Heritage Foundation for Medical Research in 1980 and $100 million to the Alberta Heritage Scholarship Fund in 1981.

NOTE 7 NET INCOME (in millions)

	2008	2007
Canadian equities	$ 398	$ 386
Deposit and fixed-income securities	303	324
Real estate	221	144
Absolute return strategies	99	14
Private equities	44	39
Non-North American equities	30	540
Private income	22	13
Timberland	8	2
United States equities	(301)	186
Net income	**$ 824**	**$ 1,648**

Investment income is comprised of interest, dividends, amortization of discount and premiums, swap income, security lending income and realized gains and losses, net of write-downs, on investments. The Fund's share of income earned from externally and internally managed investment pools is net of administrative expenses incurred by the pools (see Note 8).

The investment income for the year ended March 31, 2008 includes writedowns totalling $225 million (2007: $38 million) and losses of $15 million from discontinued hedge accounting.

NOTE 8 INVESTMENT EXPENSES (in millions)

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income by the Fund. The Fund recognizes portfolio management and administration expenses incurred directly by the Fund and its share of expenses through pooled investment funds. Investment services provided directly by the investment operations of Alberta Finance and Enterprise are charged to the Fund and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value, or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized.

	2008	2007
Total investment expenses	$ 64	$ 55
Percent of net assets at fair value	0.38%	0.33%

NOTE 9 INVESTMENT PERFORMANCE (net of investment expenses) (Schedule F)

The following is a summary of the overall investment performance results attained by the Fund determined on a fair value basis:

	One Year Return	Five Year Compound Annualized Return
Time-weighted rates of return		
Overall actual return	-0.7%	11.1%
Benchmark return (1)(2)	-0.3%	10.2%
Value added (lost) from active management	-0.4%	0.9%

(1) The overall benchmark return for the one year and five years ended March 31, 2008 is a product of the weighted average policy sector weights and the sector benchmark returns.

(2) The Fund is expected to generate a real rate of return of 4.5% over a moving five-year period based on the Fund's business plan. Over a five-year period, the annualized inflation rate was 1.8%. Therefore, the fund is expected to generate a nominal annualized rate of return of 6.3%.

NOTE 10 COMPARATIVE FIGURES

Certain 2007 figures have been reclassified to conform to 2008 presentation.

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

The Deputy Minister of Finance and Enterprise approved these financial statements.

Schedule A

ALBERTA HERITAGE SAVINGS TRUST FUND
SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES
MARCH 31, 2008
(millions)

	Fund's share			
	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 59	$ 59	$ 5	$ 5
Fixed-income securities (a)				
Corporate, public and private	3,405	3,306	3,253	3,237
Government of Canada, direct and guaranteed	991	1,016	1,054	1,053
Provincial, direct and guaranteed:				
Alberta	1	1	2	2
Other provinces	580	611	616	665
Loans	141	141	98	98
Municipal	-	-	2	2
	5,118	5,075	5,025	5,057
Receivable from sale of investments and accrued investment income	87	87	49	49
Accounts payable and accrued liabilities	(47)	(47)	(24)	(24)
	40	40	25	25
	$ 5,217	**$ 5,174**	**$ 5,055**	**$ 5,087**

(a) Fixed income securities held as at March 31, 2008 have an average effective market yield of 5.2% per annum (2007: 4.7% per annum) and the following term structure based on principal amount:

	2008	2007
	%	%
under 1 year	4	4
1 to 5 years	28	30
5 to 10 years	39	37
10 to 20 years	11	10
over 20 years	18	19
	100	100

Schedule B

ALBERTA HERITAGE SAVINGS TRUST FUND
SCHEDULE OF INVESTMENTS IN REAL ESTATE
MARCH 31, 2008
(millions)

	Fund's share			
	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 2	$ 2	$ 2	$ 2
Real estate (a)				
Office	451	778	487	804
Retail	369	545	350	529
Industrial	205	259	182	209
Residential	57	99	53	73
	1,082	1,681	1,072	1,615
Foreign Private Real Estate Pool	85	79	87	88
Participation units	63	63	58	58
Accrued income and accounts receivable	1	1	1	1
	$ 1,233	**$ 1,826**	**$ 1,220**	**$ 1,764**

(a) The following is a summary of real estate investments by geographic location:

	Fund's share			
	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Ontario	$ 643	$ 903	$ 662	$ 944
Alberta	295	599	266	492
Quebec	124	143	124	148
British Columbia	20	36	20	31
	$ 1,082	$ 1,681	$ 1,072	$ 1,615

Schedule C

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN CANADIAN EQUITIES

MARCH 31, 2008

(millions)

	Fund's share			
	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 61	$ 61	$ 17	$ 17
Public equities (a) (b)				
Consumer discretionary	161	132	154	160
Consumer staples	73	61	70	69
Energy	667	704	593	652
Financials	783	724	738	848
Health care	5	4	17	17
Industrials	147	140	108	133
Information technology	97	125	96	107
Materials	415	443	333	395
Telecommunication services	143	145	127	154
Utilities	24	22	20	22
	2,515	2,500	2,256	2,557
Pooled Funds	110	108	-	-
Receivable from sale of investments and accrued investment income	16	16	39	39
Accounts payable and accrued liabilities	(18)	(18)	(29)	(29)
	(2)	(2)	10	10
	$ 2,684	**$ 2,667**	**$ 2,283**	**$ 2,584**

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Fund's effective net investment in Canadian public equities includes the notional amount of Canadian equity index swap contracts and equity index futures contracts totalling $920 (2007: $1,174).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

Schedule D

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN UNITED STATES EQUITIES

MARCH 31, 2008

(millions)

	Fund's share			
	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 77	$ 77	$ 19	$ 19
Public equities (a) (b)				
Consumer discretionary	237	242	273	302
Consumer staples	246	262	230	252
Energy	294	328	234	267
Financials	437	441	543	596
Health Care	290	303	305	333
Industrials	317	330	292	324
Information technology	391	406	374	413
Materials	101	110	85	95
Telecommunication services	78	82	80	90
Utilities	95	99	92	103
	2,486	2,603	2,508	2,775
Pooled Funds	5	5	-	-
Receivable from sale of investments and accrued investment income	12	12	16	16
Accounts payable and accrued liabilities	(124)	(124)	(26)	(26)
	(112)	(112)	(10)	(10)
	$ 2,456	**$ 2,573**	**$ 2,517**	**$ 2,784**

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Fund's effective net investment in U.S. public equities includes the notional amount of U.S. equity index swap contracts and equity index futures contracts totalling $1,915 (2007: $2,036).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

Schedule E

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF EFFECTIVE NET INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

MARCH 31, 2008

(millions)

	Fund's share			
	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 48	$ 48	$ 29	$ 29
Public equities (a) (b)				
Consumer discretionary	294	275	283	312
Consumer staples	218	220	155	171
Energy	223	216	157	170
Financials	563	521	639	712
Health care	206	182	151	154
Industrials	359	362	318	368
Information technology	166	153	167	170
Materials	234	240	163	187
Telecommunication services	198	197	144	153
Utilities	139	139	112	129
	2,600	2,505	2,289	2,526
Pooled funds	53	58	51	70
	2,653	2,563	2,340	2,596
Receivable from sale of investments and accrued investment income	39	39	31	31
Accounts payable and accrued liabilities	(48)	(48)	(34)	(34)
	(9)	(9)	(3)	(3)
	$ 2,692	**$ 2,602**	**$ 2,366**	**$ 2,622**

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Fund's effective net investment in non-North American public equities includes the notional amount of non-North American equity index swap contracts and equity index futures contracts totalling $545 (2007: $490).

(b) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. Public equities by geographic location are as follows:

	2008		2007	
	Cost	Fair Value	Cost	Fair Value
United Kingdom	$ 599	$ 543	$ 491	$ 531
Japan	525	480	492	499
France	286	282	259	284
Germany	246	244	179	202
Switzerland	161	168	118	140
Spain	108	115	93	104
Netherlands	107	103	99	122
Australia	105	106	89	97
Italy	91	90	72	82
Hong Kong	65	62	40	45
Other	360	370	408	490
	$ 2,653	$ 2,563	$ 2,340	$ 2,596

Schedule F

ALBERTA HERITAGE SAVINGS TRUST FUND
SCHEDULE OF INVESTMENT RETURNS
FOR THE YEAR ENDED MARCH 31, 2008

The Fund uses a time-weighted rate of return based on market values to measure performance. The measure involves the calculation of the return realized by the Fund over a specified period and is a measure of the total return received from an investment dollar initially invested. Total return includes cash distributions (interest and dividend payments) and capital gains or losses (realized and unrealized).

The time-weighted rate of return measures the compounded rate of growth of the initial investment over the specified period. It is designed to eliminate the effect that the size and timing of cash flows have on the internal rate of return. The investment industry uses time-weighted rates of return calculated using market values when comparing the returns of funds with other funds or indices.

Investment returns for the Fund are as follows:

	One Year Return					5 Year Compound Annualized
Time-weighted rates of return	**2008**	**2007**	**2006**	**2005**	**2004**	**Return**
Short-term fixed income	**3.7**	**3.9**	**2.9**	**2.3**	**2.9**	**3.1**
DEX 91-day T-Bill Index	*4.6*	*4.2*	*2.8*	*2.2*	*3.0*	*3.4*
Value added (lost) from active management	(0.9)	(0.3)	0.1	0.1	(0.1)	(0.3)
Absolute return strategies	**1.5**	**11.4**	**5.2**	**5.5**	**10.7**	**6.8**
HFRX Global Hedged Index	*(1.5)*	*5.8*	*10.1*	*8.1*	*6.7*	*5.8*
Value added (lost) from active management	3.0	5.6	(4.9)	(2.6)	4.0	1.0
Long-term fixed income	**4.5**	**6.3**	**6.5**	**5.8**	**11.3**	**6.8**
DEX Universe Bond Index	*5.8*	*5.5*	*4.9*	*5.0*	*10.8*	*6.4*
Value added (lost) from active management	(1.3)	0.8	1.6	0.8	0.5	0.4
Real estate	**16.4**	**24.3**	**20.7**	**17.0**	**7.5**	**17.1**
IPD Large Institutional All Property Index	*14.5*	*18.3*	*19.4*	*7.1*	*5.5*	*12.8*
Value added (lost) from active management	1.9	6.0	1.3	9.9	2.0	4.3
Private income	**12.8**	**20.3**	**21.3**	**5.3**	**n/a**	**n/a**
CPI plus 6%	*7.8*	*8.0*	*8.2*	*8.1*	*n/a*	*n/a*
Value added (lost) from active management	5.0	12.3	13.1	(2.8)	n/a	n/a
Timberland Investments	**6.5**	**54.0**	**(4.9)***	**n/a**	**n/a**	**n/a**
CPI plus 4%	*5.8*	*6.0*	*4.2 **	*n/a*	*n/a*	*n/a*
Value added (lost) from active management	0.7	48.0	(9.1)	n/a	n/a	n/a
Canadian equities	**2.4**	**11.8**	**28.8**	**15.4**	**36.6**	**18.4**
S&P/TSX Composite Index	*4.0*	*11.4*	*28.4*	*13.9*	*37.7*	*18.5*
Value added (lost) from active management	(1.6)	0.4	0.4	1.5	(1.1)	(0.1)
United States equities	**(17.7)**	**10.5**	**8.2**	**(1.6)**	**22.0**	**3.4**
S&P 1500 Index	*(15.7)*	*9.9*	*9.1*	*(1.0)*	*20.5*	*3.8*
Value added (lost) from active management	(2.0)	0.6	(0.9)	(0.6)	1.5	(0.4)
Non-North American equities	**(12.2)**	**17.6**	**24.2**	**7.6**	**40.9**	**14.2**
MSCI EAFE Index	*(13.2)*	*18.7*	*20.0*	*6.2*	*40.5*	*13.0*
Value added (lost) from active management	1.0	(1.1)	4.2	1.4	0.4	1.2
Private equities	**8.1**	**19.6**	**18.4**	**5.2**	**4.6**	**11.0**
Consumer Price Index (CPI) plus 8%	*9.8*	*10.0*	*10.2*	*10.1*	*8.7*	*9.8*
Value added (lost) from active management	(1.7)	9.6	8.2	(4.9)	(4.1)	1.2
Overall	**(0.7)**	**12.4**	**15.2**	**7.7**	**22.5**	**11.1**
Policy Benchmark	*(0.3)*	*10.8*	*13.9*	*6.4*	*21.6*	*10.2*
Value added (lost) from active management	**(0.4)**	**1.6**	**1.3**	**1.3**	**0.9**	**0.9**

* Actual and benchmark returns are for nine months.

FUND GOVERNANCE

- The Fund was established in 1976 and operates under the authority of the *Alberta Heritage Savings Trust Fund Act*. On January 1, 1997, an amended Act was passed that sets out a revised investment framework for the Fund.
- The Standing Committee on the Alberta Heritage Savings Trust Fund reviews and approves the Business Plan and Annual Report of the Fund. The Standing Committee has representation from the major parties of the legislature. The Standing Committee receives regular reports on the performance of the Fund and conducts public meetings on an annual basis in different locations in the province. The purpose of these meetings is to update Albertans on the management of the Fund and to solicit input from Albertans on the Fund's objective.
- The Ministry of Finance and Enterprise is responsible for the Fund and its investments. The Minister of Finance and Enterprise is required to report on the performance of the Fund quarterly within 60 days of the end of the quarter and make public the annual report within 90 days of the end of the fiscal year.
- The Endowment Fund Policy Committee (EPC) was established by the Minister in 2003. The Committee provides private sector financial and business advice in the formulation of the Fund's investment policies and operation. In 2007-08, the Committee reviewed and made recommendations to the Minister of Finance and Enterprise with respect to the business plan, annual report and investment policy statements for the Fund. In June 2008, the EPC was discontinued and the Minister will receive that advice through both AIMCo and the Department of Finance and Enterprise with respect to the investment policy statements of the Fund. From time to time the Government may establish policy for investments and will provide that advice to AIMCo and the Department. Further, the Minister will assure that proper performance review and fund management principles are in place.
- The business plan of the Fund is published as part of the provincial budget and the income of the Fund is consolidated into the revenue of the Province. The Treasury and Risk Management Division of Alberta Finance and Enterprise is responsible for the preparation of the Fund's business plan and provides investment policy support to the Minister of Finance and Enterprise, and the Standing Committee.
- Alberta Investment Management Corporation (AIMCo) commenced operations on January 1, 2008. AIMCo manages the day-to-day investment operations of the Fund. External specialized private sector managers are used by AIMCo to manage specific investment mandates.

COMMITTEES

Alberta Heritage Savings Trust Fund Standing Committee

Chair:	Heather Forsyth, MLA for Calgary-Fish Creek
Deputy Chair:	Doug Elniski, MLA for Edmonton-Calder
Members:	Laurie Blakeman, MLA for Edmonton-Centre
	Alana Delong, MLA for Calgary-Bow
	Jonathan Denis, MLA for Calgary-Egmont
	Art Johnston, MLA for Calgary-Hays
	Darshan Kang, MLA for Calgary-McCall
	Rachel Notley, MLA for Edmonton-Strathcona
	Verlyn Olson, MLA for Wetaskiwin-Camrose
Committee Clerk	Jody Rempel

Endowment Fund Policy Committee*

Chair:	Allister J. McPherson
Members:	Alvin Libin, Balmon Investments Ltd.
	Rob Jennings, Jennings Capital Inc.
	Bill Hutchison, Money Ware Inc.
	John Swendsen, National Bank of Canada
	Peter Watson
	Robert Bhatia (ex officio), Deputy Minister of Finance and Enterprise
Secretary	Rod Matheson, Assistant Deputy Minister, Treasury and Risk Management, Alberta Finance and Enterprise

Investment Manager
Jai Parihar, Chief Investment Officer, Alberta Investment Management Corporation (AIMCo)

Auditor
Fred Dunn, FCA, Auditor General of Alberta

* The Committee was discontinued in June 2008.

BUSINESS PLAN SUMMARY

PURPOSE

The business plan of the Fund describes the statutory mission, investment goals, strategies and performance measures and policy benchmarks. The business plan is prepared annually by the Treasury and Risk Management Division of Alberta Finance and Enterprise and is published as part of the Provincial budget. The Endowment Fund Policy Committee (EPC) reviewed and made recommendations to the Minister regarding the business plan and the investment policies for the Fund. The business plan is then reviewed and approved by the Minister of Finance and Enterprise, the Treasury Board and the Legislature's Standing Committee on the Alberta Heritage Savings Trust Fund.

STATUTORY MISSION

The statutory mission of the Fund is:

"To provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans."

GOALS AND PERFORMANCE MEASURES

The two main goals of the Fund and their related performance measures, as outlined in the Fund's business plan, are as follows:

1. **Maximize long-term returns at a prudent level of risk.**

» The investment income of the Fund is an important component of the government's fiscal plan. The net income of the Fund, except for amounts retained for inflation proofing, is transferred to the GRF and used to fund Albertans' priorities. The Fund must be invested in such a way as to maximize returns over the long-term while adopting a prudent investment strategy that balances the level of risk with the goal of high portfolio returns.

» The Act provides for the maintenance of the Fund's real value by requiring the Heritage Fund to be inflation-proofed.

Key Strategies

- Maintain and implement an asset mix that targets maximum long-term returns. The Fund's Investment Policy Statement, established by the Minister of Finance and Enterprise, sets out the policy asset mix.
- Periodically review asset mix to ensure it remains optimal for achieving the goal of maximizing long-termreturns at a prudent level of risk.
- Retain investment managers who employ active management strategies which add value above the benchmark without assuming undue risk.

Key Performance Measures

The table below describes the various types of investments (asset classes) the Fund can invest in according to the business plan. Each asset class is assigned a target asset mix representing its percentage of the overall portfolio and a policy benchmark representing a market-based index or other measure to which its actual return is compared. The overall policy benchmark return of the Fund represents the total of the weighted average benchmark returns for each asset class. The difference between the Fund's actual return and policy benchmark return represents the return from active management. The active management return is expected to be equal to or greater than 0.5%. The asset mix return is used to determine whether the target asset mix as set out in the investment policy is achieving expected returns. The asset mix return is expected to exceed the Canadian Consumer Price Index (CPI) plus 4.5%.

	Long-Term Target Asset Mix		
Asset Class	**2008**	**2007**	**Policy Benchmark**
Cash and Absolute Return Strategies			
Money market	1%	1%	DEX 91-Day Treasury Bill
Absolute Return Strategies	6%	5%	HFRX Global Investable Index - Hedged C$
Fixed income securities	24%	29%	DEX Universe Bond Index
Inflation sensitive			
Real Estate	10%	10%	Investment Property Databank (IPD) Large Institutional Index
Private income	6%	4%	CPI plus 6%
Timberland	2%	2%	CPI plus 4%
Equities			
Canadian	15%	15%	Standard & Poor's/Toronto Stock Exchange (S&P/TSX) Composite Index
United States	15%	15%	Standard & Poor's (S&P) 1500 Index
Non-North American	15%	15%	Morgan Stanley Capital International (MSCI) Europe, Australasia, Far East (EAFE) Index
Private equities	6%	4%	CPI plus 8%
Total	100%	100%	

2. Ensure the transparency of the Heritage Fund's objective and results for Albertan's.

» Published reports and news releases will provide Albertans with access to information to enhance understanding of the Heritage Fund.

Key Strategies

- Release quarterly and annual reports on a timely basis in simple understandable language.
- Publish the Heritage Fund Business Plan annually.
- The Legislature's Standing Committee will hold annual public accountability meetings.

Key Performance measures

- Timeliness of reports and public accountability meetings.
- Annual report will be released by June 30 of each year.
- Quarterly reports will be released within two months after the end of each quarter.

GLOSSARY

ABSOLUTE RETURN STRATEGIES

Absolute Return Strategies (Hedge Funds) encompass a wide variety of investments with the objective of realizing positive returns regardless of the overall market direction. A common feature of many of these strategies is buying undervalued securities and selling short overvalued securities. Some of the major types of strategies include long/short equity, fixed income arbitrage, merger arbitrage, macroeconomic strategies, convertible arbitrage, distressed securities and short selling.

ACCRUED INTEREST

Interest income that has been earned but not paid in cash.

ACTIVE STRATEGIES

The strategies have two forms - security selection or market timing. Security selection is the buying and selling of securities to earn a return above a market index such as the S&P/TSX Index for Canadian Stocks. Market timing is based on shifting asset class weights to earn a return above that available from maintaining the asset class exposure of the policy asset mix.

ASSET MIX

The percentage of an investment fund's assets allocated to major asset classes (for example 50% equities, 10% real estate, 30% fixed income and 10% alternative investments).

BENCHMARK

A standard against which actual returns are measured. For the purposes of this report, benchmarks are established income indices used to measure the health of the Fund's investment income.

BOND/DEBENTURE

A financial instrument showing a debt where the issuer promises to pay interest and repay the principal by the maturity date.

CAPITAL GAIN

The market value received on sale of an asset beyond its cost or purchase price. If the asset is bought for $50 and sold for $75, the realized capital gain (profit) is $25.

COST VALUE

The value for which an asset was acquired.

DEPOSITS

Liquid, short-term investments. A cash equivalent.

DERIVATIVE CONTRACT

Financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates.

DIVERSIFICATION

Spreading investments to reduce risk by buying different securities from various companies, businesses, locations and governments.

EMERGING MARKET

An economy in the early stages of development whose markets have sufficient size and liquidity and are receptive to foreign investment. Examples include Brazil, Russia, India and China.

EQUITY

Stocks; the ownership interest in a company.

EXTERNAL MANAGER

A third-party firm contracted to provide investment management services.

FAIR VALUE

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair value is similar to market value.

FIXED INCOME SECURITIES

Interest bearing investments such as bonds and debentures, and money market investments such as treasury bills and discount notes (see "Bond" and "Money Market Security").

GENERAL REVENUE FUND (GRF)

The central operating account for the Province of Alberta. It is where most of the revenues received by the Province are deposited and from where most of the expenditures are made.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

These are accounting guidelines formulated by the Canadian Institute of Chartered Accountants (CICA) Accounting Standards Committee (ASC), that govern how businesses and governments report their financial statements to the public. The recommendations of the Public Sector Accounting Board (PSAB) of the CICA are the primary source for the disclosed basis of accounting.

INTEREST RATE SENSITIVE EQUITY

Equity whose return is expected to react to changes in interest rates.

INVESTMENT PORTFOLIO

A pool of securities held as an investment. Holdings of a diverse group of assets by an individual company or fund.

LARGE CAP

Investment in larger capitalized firms. Within Canada, companies with a market capitalization of greater than 0.15% of the total Toronto Stock Exchange market capitalization.

LIQUIDITY

The ease with which an asset can be turned into cash and the certainty of the value it will obtain.

MARKET VALUE

See fair value.

MARKET (VALUE) RATE OF RETURN

The market value rate of return measures income (interest and dividends) and capital appreciation or depreciation (realized and unrealized). The method used to calculate the return is the time-weighted method.

MARKETABLE SECURITY

An investment for which there is usually a ready market.

MODIFIED DURATION

A measure of price volatility of fixed income securities (i.e. bonds). It is the weighted average term-to-maturity of the security's cash flows (i.e., interest and principal). The greater the duration of a bond, the greater its percentage price volatility.

MONEY MARKET SECURITY

A fixed income security that matures within one year form the date of acquisition.

NET INCOME

The amount of earnings remaining after deducting expenses.

NET INVESTMENT INCOME

On a cost basis, includes realized capital gains, interest, dividends, security lending income, derivative income and administrative expenses. On a fair value basis, includes in addition to the above, current period changes in unrealized gains and losses.

NOMINAL RATE OF RETURN

A measure of return that does not exclude the effect of inflation (see Real Rate of Return).

PAR VALUE

A value set as the face or principal amount of a security, typically expressed as multiples of $100 or $1,000. Bondholders receive par value for their bonds at maturity.

PASSIVE STRATEGIES

These strategies involve investing to replicate the performance of a given market index such as the S&P/TSX Composite Index for Canadian stocks, or managing asset class exposure to match the performance of an established policy asset mix.

REAL VALUE OR REAL RATE OF RETURN

A measure of value or return after accounting for inflation. It is equal to the nominal value or return less an amount for inflation.

REALIZED AND UNREALIZED

Terms generally used to describe capital gains or losses. A gain or loss is realized when the asset is sold; prior to sale the gain or loss is unrealized and it is only a potential gain or loss.

SECURITY

Any investment instrument such as a bond, common stock, deed of trust on property, or any evidence of indebtedness or equity.

SHORT-TERM INVESTMENT

An investment with a maturity date of less than one year.

SMALL CAP

Investment in smaller capitalized firms. Within Canada, companies with a market capitalization of less than 0.15% of the total Toronto Stock Exchange market capitalization.

TERM-TO-MATURITY

The number of years left until a bond matures.

TIME-WEIGHTED RATE OF RETURN

Time-weighted rate of return are designed to eliminate the effect that the size and timing of cash flows has on the internal rate of return since the pattern of cash flows vary significantly among funds. The investment industry uses time-weighted rates of return when comparing the returns of one fund to another fund or to an index.

VOLATILITY

In financial matters, volatility of returns is the measurement used to define risk. The greater the volatility, the higher the risk.

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